OVERVIEW

Local Government Energy and Mineral Impact Assistance Grant and Loan Program

Colorado Department of Local Affairs
August 2007

Origin. Created by the General Assembly in 1977 to provide funds and technical assistance to communities affected by the boom and bust cycles of the extraction industries.

Sources of Funds. The program utilizes funds from the following two sources. For the convenience of local governments and to minimize administrative expenses, these funds are administered as a single program.

- **Federal Mineral Lease.** Pursuant to C.R.S. 34-63-102, a portion of Colorado receipts of Federal Mineral Lease funds are directed to the Local Government Mineral Impact Fund from which “the executive director of the department of local affairs shall distribute moneys” to “state agencies, public schools, and political subdivisions of the state … for planning, construction, and maintenance of public facilities and for public services” with “priority given to those public schools and political subdivisions socially or economically impacted by the development, processing, or energy conversion of fuels and minerals leased under said federal mineral leasing act.”

- **State Severance Tax Funds.** When the General Assembly enacted legislation in 1977 establishing a state severance tax on certain minerals and fuels, it found that “when nonrenewable natural resources are removed from the earth, the value of such resources to the state of Colorado is irretrievably lost” and declared its intent “to recapture a portion of this lost wealth through a special excise tax … on the nonrenewable resources removed from the soil of this state and sold for private profit” and that “a portion be made available to local governments to offset the impact created by nonrenewable resource development.” (C.R.S. 39-29-101.)

  Pursuant to C.R.S. 39-29-110, 50 percent of total state severance tax receipts are credited to “a local government severance tax fund” with 85 percent (soon to be 70 percent in 2008 pursuant to HB07-1139) of those funds to “be distributed to those political subdivisions socially or economically impacted by the development, processing, or energy conversion of minerals and mineral fuels subject to taxation under this article and used for planning, construction, and maintenance of public facilities and for the provision of public services.”

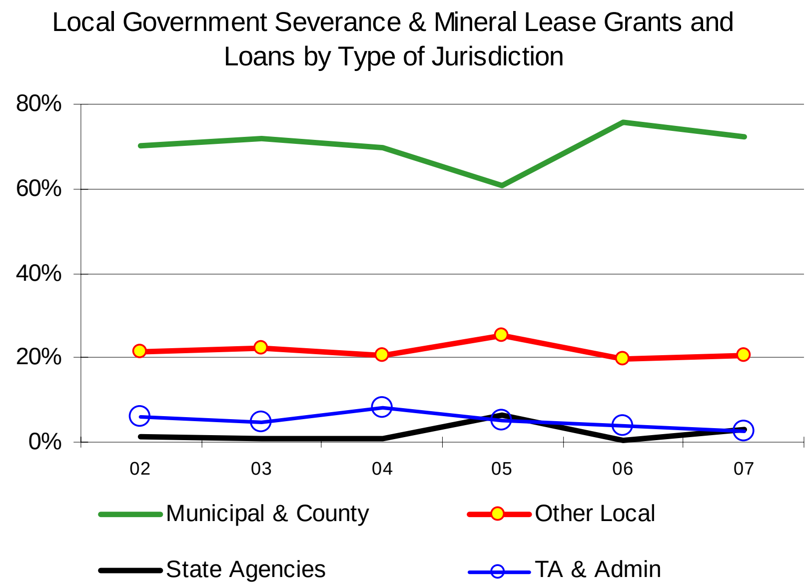
Amount of Funds Available for Award. Revenues to the program have more than tripled in recent years, resulting in a significant increase in the number and amount of awards.

Local Government Energy & Mineral Impact Awards by Year, 2001 - 2007

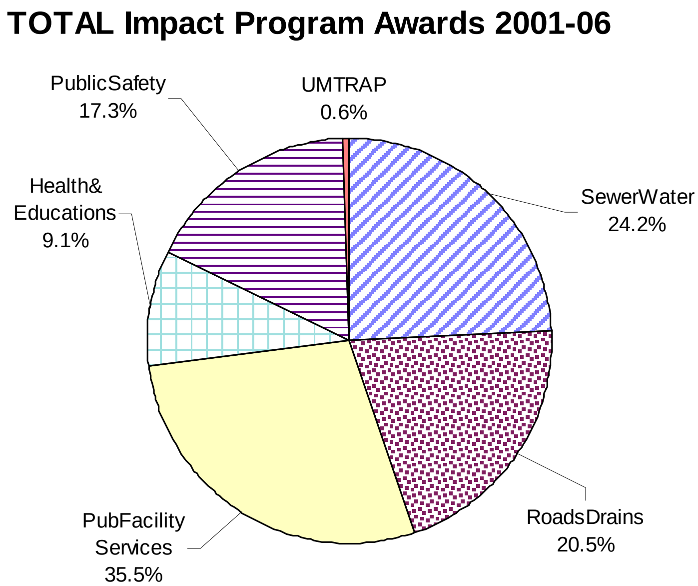
Calendar Year	# of Awards	Amount of Awards
2001	180	$ 28,589,212
2002	207	$ 39,679,447
2003	195	$ 34,436,860
2004	289	$ 60,772,717
2005	434	$128,261,051
2006	357	$ 90,445,844
2007 as of August 28	257	$ 92,570,036
Total	1919	$474,755,167

Technical Assistance. Technical assistance related to project development, application and project administration is provided through eight field offices located in Fort Morgan, Pueblo, Monte Vista, Durango, Grand Junction, Frisco, Loveland and Golden.

Eligible Recipients. By statute, eligible recipients are "political subdivisions socially or economically impacted by the development processing or energy conversion of fuels and minerals." Political subdivisions include municipalities, counties, school districts and most special districts. State agencies are also eligible recipients of federal mineral lease funds provided that "such expenditure is authorized by legislative appropriation."



Eligible Activities. By statute, eligible activities consist of the "planning, construction and maintenance of public facilities" and "the provision of public services." Examples of public facilities include water and sewer infrastructure, public road and street improvements, emergency medical and fire protection facilities and equipment, town/city halls, county courthouses, and community centers. Examples of public services include socio-economic studies, comprehensive planning, internship programs and community development assistance to local governments. The majority of funded projects have been local government infrastructure.



Types of Financial Assistance. Grants and, in the case of wastewater and potable water facilities, loans. By statute, the minimum interest rate is five percent, which is the rate that is generally set. The maximum term is generally 20 years.

Active loans	157
Outstanding balance	$20,957,055
Payments due Sept. 2007	$ 1,891,879

Application Deadlines. Applications are accepted continuously and are considered in the course of three regular funding cycles each year.

Maximum Grant Amount. No absolute limit, however, $500,000 is the suggested maximum grant guideline. In circumstances in which a project is critical to addressing significant energy/mineral impacts, presents a compelling need, represents a unique opportunity for enhanced quality of life or is of monumental significance in strengthening a community for the future, the maximum grant guideline may be increased to $1,000,000 or more. In recent years maximum grant amounts for special initiatives to address road, water and wastewater, healthcare, and emergency communications needs have been set at $1,000,000 and more. Water and sewer loan/grant combinations are considered in amounts up to $1,000,000.

Project Selection Criteria. (Verbatim from January 2006 program guidelines posted on department website). The department and the state advisory committee in reviewing applications and making funding decisions use the following criteria or guidelines:

a. The range and extent of impacts associated with energy and mineral development, processing or energy conversion affecting the applicant's jurisdiction, including areas indirectly affected. The program maintains flexibility to respond to areas throughout the state with lesser impacts.

b. The extent to which the proposed project addresses the existing or projected community impacts.

c. Availability of alternative funding sources. Applicants will be expected to explore all other sources for which their proposals may be eligible, and specify efforts to receive funding from such sources. For proposals eligible for more than one source, the state advisory committee and the executive director may adjust the priority or level of funding, based on the degree to which the project relates to energy/mineral impacts and the degree of eligibility for other funds.

d. Amount of local cash and other funds relative to the grant request amount. Larger matching amounts are generally more competitive. Dollar-for-dollar match, where local circumstances permit, is encouraged.

e. The level of in-kind contributions committed to the project.

f. Local priority as designated by jurisdiction or, if provided, by a countywide impact team.

g. The relationship of the project to identified community goals and/or documented public health and safety issues.

h. The applicant's fiscal capacity and ability to pay. The state advisory committee is statutorily responsible for reviewing "the extent of local tax resources" and "the extent of local tax effort in solving energy impacts." (C.R.S. 34-63-102(5)(b)(I))

i. Consistency with local/regional plans. To the extent possible, the Energy and Mineral Impact Assistance Program will be supportive of locally/regionally adopted plans governing land use, development, capital improvement, and comprehensive planning. Where applications conflict with such plans, department staff will identify such conflicts during the review process and will work with appropriate parties to resolve such conflicts before a decision on the application is rendered.

j. The likelihood and urgency of timely implementation of the proposed project.

k. The overall feasibility of the proposed project.

l. The extent to which the proposed project may duplicate other efforts or is not coordinated with other related efforts.

m. The likelihood the project can be completed within the proposed budget.

n. The management capability of the applicant/implementers.

o. The consequences of not providing funding.

State Staff Review. A specific DOLA staff member is assigned to be the primary contact for the review period. This is usually the department's regional manager for the area. Assigned staff discusses the proposed project with the applicant, reviews the application and the project, and prepares a project summary sheet which describes the project, presents the proposed budget and provides an analysis of the project's strengths and weaknesses. Applicants receive a copy of this project summary. A sample project summary is attached and identified as Attachment A.

State Advisory Committee Review. The state Energy and Mineral Impact Assistance Advisory Committee, created pursuant to C.R.S. 34-63-102(b)(1), reviews most applications. The committee consists of nine members:

- Executive Director, Department of Local Affairs, chair,
- Executive Director, Department of Natural Resources, or designee,
- Executive Director, Department of Transportation, or designee,
- Commissioner of Education, or designee, and
- "Five residents of areas impacted by energy conversion or mineral resource development. The five residents shall be appointed by the governor for terms not exceeding four years to serve at the pleasure of the governor." Current appointees are:

  Stephen Loshbaugh, Mayor, Town of Meeker
  Robert Masden, County Commissioner, Weld County
  Charles J. Griego, Mayor Pro Tem, City of Alamosa
  Carl Miller, Colorado Public Utilities Commission (former Lake County Commissioner)
  Stephanie J. Basey, Operating Manager, Pioneer Natural Resources

The Energy and Mineral Impact Assistance Advisory Committee reviews applications in a public meeting at which applicants have the opportunity to present their application, respond to the staff's review, and answer questions from the committee. Following the presentation, the committee makes its funding recommendation to the executive director, who makes the final funding decision.

Funding Decisions. Following advisory committee review, the executive director announces his/her decision to award or to deny grant or loan funding by way of a letter to the chief elected official of the applicant jurisdiction. In cases where time is of the essence, a decision may be made without prior review by the advisory committee. Requests for supplemental funding due to unforeseen increases in project costs are also generally made by the executive director without advisory committee review. Copies of decision letters are sent to area legislators and other interested parties.

Contracting. State funds are not obligated until a grant and/or loan contract is fully executed by the local government chief elected official, the DOLA executive director and the state controller or his/her designee, who is generally the department controller. State funds cannot be encumbered or expended by the local recipient until the contract is fully executed. In addition to general and special provisions, the contract generally includes:

- Scope of services, describing the project, performance schedule and other operational details,
- Budget, specifying state, local and other funds, as well as project costs,
- Payment schedule, specifying that payments are made on a reimbursement basis and specifying the amount the state will retain until such time as the project is completed and the recipient has fulfilled all obligations under the contract, and
- Reporting, monitoring and closeout procedures.

Benefits of Current Program.

- Responsiveness to local government priorities.
- Flexibility, allowing responsiveness to direct impacts and other evolving problems and opportunities.
- Ease of access to technical assistance and administrative support by smaller, less sophisticated towns, counties and special districts.
- Ability to provide funding for large-scale local government needs that far exceed funding available through Severance and Mineral Lease direct distributions.
- Ability to provide funding directly to special districts (e.g., fire protection districts) and other political subdivisions that do not receive funding from Severance and Mineral Lease direct distributions.
- Ability to offset any inequities resulting from rigid metrics used for Severance and Mineral Lease direct distributions.
- Responsiveness to existing statutory charge that funds “be distributed to those political subdivisions socially or economically impacted by the development, processing, or energy conversion of minerals and mineral fuels….”
- Responsiveness to direct energy and mineral impacts over the cycle of impacts - before, during and after production. A few examples include:
    - **NW Colorado Cumulative Social-Economic Impact Study** – $350,000 grant (2007). Development of a cumulative energy and mineral social-economic impact study with the following elements: establishing community facility and service standards and capacity standards and capacity inventories of affected local governments; projected energy and mineral development scenarios; and production of an economic model to project potential costs and revenues associated with cumulative energy

and mineral developments. The model will allow impacted local governments to improve their planning processes and better accommodate and prepare for changes to their communities due to the extraction of natural resources.

- **La Plata County Cumulative Impact Study** – $250,000 grant (2000). Preparation of a comprehensive study to assess and analyze the cumulative impacts of oil and gas development and to identify tools and methods for mitigating impacts.
- **Weld County Road 13** – Grants totaling $2,700,000 (for five phases between 2003 and 2006). County Road 13 is a major north-south arterial roadway through the Wattenburg Energy Field that is heavily used by energy drilling vehicles, trucks gathering oil in the area, and oil and gas servicing vehicles.
- **Las Animas County Roads and Road Equipment** – Grants totaling $7,226,237 (since 2001).   Various road improvements and road maintenance equipment, which have consistently been the county's priority.
- **Delta County Rail Safety Improvements** – Multi-year grant totaling $3,000,000 (beginning in 2000). Project involved construction of numerous safety improvements along the Union Pacific railroad corridor from the North Fork area of Delta County, including Paonia and Hotchkiss, to the City of Delta. Improvements included flashing lights, gates and realignment of the railroad tracks to eliminate rail/vehicle interface. Local government and coal mining industry contributions totaled $4.9 million.
- **Parachute Town Hall Expansion** – Grants totaling $826,620 (2006 and 2007). Renovation of existing space and construction of 2,500 square feet addition to accommodate additional administrative staff and municipal police department operations to keep pace with growth and development caused by industry impact. Town is contributing $1.1 million.
- **Rio Blanco County Revenue Shock** – Grants totaling $825,000 (1994 and 1995) to offset the county's loss of property tax revenues resulting from reduced energy/mineral assessed valuation stemming from decline in commodity prices.
- **Lake County Superfund Technical Assistance** – $175,000 grant (beginning in 2003). Funds were used to help finance the work of environmental remediation consultants in seeking a resolution to the Superfund designation by the EPA.
- **San Juan County Walsh Smelter Site Cleanup** – $194,000 grant (2006). Project finances the cleanup of the historic 13-acre smelter site in the Town of Silverton on which the county plans to construct housing.
- **Georgetown Wastewater Inflow and Infiltration Remediation** – Grants totaling $400,000 (three phases beginning in 2001). Georgetown area is dotted with old mine workings and runoff from the mines is a significant contributor to the town's infiltration problem. Project allows the town to reduce inflow and infiltration into its wastewater collection system thereby reducing heavy metals and hydraulic overloading at the wastewater treatment plant.

Local Government Fund Grant and Loan Awards Have Followed the Impacts Throughout the State

Percent FY98-07 by County

- 8 to 9%
- 6 to 8%
- 4 to 6%
- 2.5 to 4%
- 1 to 2.5%
- 0.5 to 1%
- 0.1 to 0.4%
- 0 to 0.1%

Opportunities to Improve. Potential areas for improvement include:

- Changing match requirements to better reflect reality of local government financial conditions.
- Conducting one large grant ($5-10 million) round per year with Legacy grant model used by Great Outdoors Colorado.
- Setting aside funds for special initiatives for roads and other purposes, limited to the most heavily impacted areas and requiring little or no match.
- Committing to multi-year funding for large scale road and other projects that can be phased.
- Conducting a planning grant program to help communities develop frameworks for investment in infrastructure before, during and after production.
- Reconfiguring the advisory committee to add to the local government representation, specify industry representation and provide for Senate confirmation of the gubernatorial appointments.
- Allowing/encouraging community presentations via teleconference to save time and money for local officials.

- Creating an evaluation component to demonstrate the difference achieved after a grant project has been completed.
- Improving project monitoring by contracting out the monitoring/evaluation component.
- Presenting results of the grant program yearly to the General Assembly in a hearing (summarizing annual report required to be filed pursuant to C.R.S. 39-29-110(3) and 34-63-102(5)(c)).
- Developing additional clearer criteria for grant applications.

Attachment A

#[redacted] [redacted] **County R&B Equipment II**

***APPLICANT*:** [redacted] **County**

CONTACT: [redacted]
County Engineer
[redacted]

***PROJECT DESCRIPTION*:** The project consists of purchasing a wheel roller, backhoe loader, trailer, trucks and bottom dump trailers.

Expenditures		**Revenues**	
Wheel Roller	$85,000	Energy/Mineral Impact Fund Request	$500,000
Backhoe Loader	90,000	[redacted] County Cash (committed)	90,000
Trailer	55,000		
Truck Chassis	210,000		
3-Dump Trailers	96,000		
2-Wet Kits & Dump Body	54,000		
TOTAL	$590,000	TOTAL	$590,000

FINANCIAL DATA (County):

Assessed Valuation	$397,706,502
Mill Levy/Annual Revenue	21.060/$8,375,699
Mill Levy/Annual Revenue (R&B)	0.121/$48,122
Sales Tax Rate/Annual Revenue	0/$0
Annual Budget (R&B Fund)	$5,138,433
Fund Balance (R&B Fund)	$2,660,180
Long-Term Debt	$42,197,311

COMMUNITY DATA:

[redacted]	2005 Assessed Value	2005 Nat Res/Energy Valuation	2005 Nat Res/Energy Valuation %	2004 % Mining Employment	2005 Active Wells	2006 Median Income
County Data	$397,710,690	$1,857,660	0.47%	0.8%	0	$47,700
[redacted]						

[redacted] County	2000 Population	Current Population
Local Data	33,432	38,117

Attachment A

Project Selection Criteria: **#[redacted] [redacted] County R&B Equipment**

<u>Social/Economic Impact</u> (range and extent of positive and negative energy/mineral impacts to community and how project addresses them, relationship of project to economic diversification)

- The west end of [redacted] County has several past and present direct impacts from the energy/mineral industry. The history of the area is a series of repeated crisis that have had the uranium-vanadium mining industries up and down for a century. Presently, uranium-vanadium mining is predicted to have another resurgence. Significant coal mining and the Tri-State electric generating plant are active with 90 employees and a new power line corridor is planned and permitted.

<u>Project Significance</u> (public health and safety, improvement to services, quality of life, consequences of not funding, urgency)

- Energy/mineral industries have created road impacts in the west end of [redacted] County.

<u>Local Commitment</u> (ability to pay, local match, in-kind contribution, fiscal capacity, community support, local priority)

- Low local government contribution of 15% of the project. The county could lease purchase some of the equipment thereby increasing the match.
- With the large fund balance it appears the county could finance their equipment needs.
- [redacted] County has several times attempted, but has been unable to pass a de-Brucing question. The county has been forced to reduce their mill levy as a result. Additionally, the county attempted three times to have voters reinstate the 1% sales tax. The defeat in November 2006 resulted in a reduction of revenues from the 2007 budget. Should the energy/mineral impact fund subsidize local government projects that appear to have little public support? Will the county attempt to have voters approve the sales tax question ~~or~~ de-Brucing question or both? Is de-Brucing still a problem with the loss of the sales tax revenue?

<u>Relationship to Community Goals</u> (consistency with local/regional plans, goals identified in the budget or capital development work plan)

- The west end consists of 845 miles of roads and the current road and bridge equipment is outdated. New equipment will allow the county to begin prioritizing road repairs based on maintenance needs.
- EIAF #[redacted] awarded $500,000 to [redacted] County with a local match of $123,000 in August of 2006 that also replaced west end road and bridge equipment.

<u>Management Capacity</u> (feasibility, duplication, adequate budget and O&M capability, likelihood of project being completed)

- All of the new equipment will be located and will remain in the west end road and bridge shop located near [redacted], which is where the majority of the energy development occurs.
- Using old equipment results in lost time and money in repairs. [redacted] County does not appear to have an equipment replacement program that rotates old and used equipment through a lease-purchase arrangement with vendors. Why doesn't a county with substantial tax base manage equipment replacement in a "best practices" approach?
- The large debt is primarily for the county hospital expansion.

Basey _____ Suckla _____ Loshbaugh _____ Sherman _____ Gerstle _____ Griego _____ Masden _____ Miller _____